DOI: 10.59571/mpi.v2i2.4

Cross-Selling Right: Navigating Out Of The EBITDA Death Valley

Renuka Kamath & Pranav Bharti

Problem of practice:

The need for cross-selling has increased in the past decade, as it boosts company revenues at a reduced cost, given that acquiring new customers is more expensive than retaining an existing one. While the need for cross-selling is strong, the execution is a challenge. Fresh insights from research by Christian Homburg, Sina Böhler, and Sebastian Hohenberg illuminate how to succeed at cross-selling.[1] They identify how familiar levers for cross-selling – such as salesforce incentives, training, and job rotation – need to fit the company's structures for maximum gains. Using these levers and structures effectively sales and marketing teams can navigate the cross-selling 'death valley' – a U-shaped relationship where profits tend to dip before they rise again. Ignore the insights at your peril – as many companies lose hope when investments in cross-selling do not yield expected returns fast enough. We illustrate this insight with examples and synthesize it with another set of insights – from a study by Yuhyung Shin, Won-Moo Hur, and Tae Won Moon – which delves deeper into managing salespersons for the challenging and rewarding task of cross-selling[2]

[1,2] The two articles—Organizing for cross-selling: Do it right, or not at all' by Christian Homburg, Sina Böhler and Sebastian Hohenberg featured in Volume 37 of *International Journal of Research in Marketing* and 'When and how sales manager feedback contributes to sales performance: the role of emotional labor and cross-selling' by Yuhyung Shin, Won-Moo Hur and Tae Won Moon featured in Volume 57, Issue 2 of *European Journal of Marketing*—illuminate how companies can succeed at cross-selling

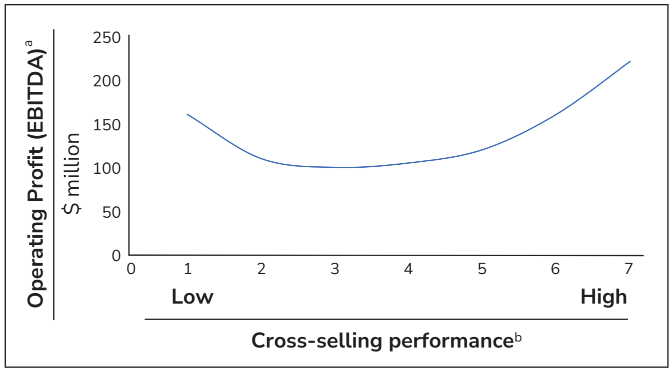
Opportunity and challenge

'Cross-selling' is defined as selling additional products and services to current customers.[3] Experts suggest businesses can boost revenues by 20% and profits by 30% through skilful cross-selling.[4] Two significant shifts have fuelled this trend. First, there is a trend to reduce silos within corporates – using a united and single sales front to sell their multi-brand portfolio of products.[5] Second, customers' needs have diversified, while their expectations of a single, convenient contact point with the company have increased. According to research by Salesforce, Inc., 79% of customers want a seamless experience across all company touchpoints, yet 55% say it generally feels like they communicate with separate teams instead of one company.[6] Both these shifts necessitate companies to optimize, train, and deploy their sales team in a way that enables easy cross-selling of products and services. Cross-selling is also helpful in improving the Customer Lifetime Value (the total revenue a business can reasonably expect from a single customer account throughout the business relationship) at a reduced cost, as it optimizes the current sales assets with lower marketing expense and human resource costs. Thus, cross-selling can lead to higher profits and better customer relationship-building ability and maintenance.[7]

According to by Salesforce, Inc., 79% of customers want a seamless experience across all company touchpoints, yet 55% say it generally feels like they communicate with separate teams instead of one company

While desirable, cross-selling is not easy: On average, 20% or fewer businesses meet their cross-selling goals.[8] Why? First, many companies lose heart as cross-selling programs initially incur more costs than the associated revenue gains (*see Figure 1* for a visual depiction of this 'death valley'). However, there is good news — once the cross-selling performance crosses a certain threshold, the operating profits (or EBITDA[a], more specifically) increase exponentially. Second, even with the best intentions, businesses may not implement the drivers of cross-selling performance that are best for their context. To help you get the most out of your cross-selling programs and get positive returns, we highlight how typical drivers such as salesforce training, job rotation, managerial feedback, and incentives must fit the organizational context.

Figure 1: EBITDA's U-shaped relationship with cross-selling performance



[a] EBITDA is defined as earnings before interest expenses, taxes, depreciation and amortization; in essence, EBITDA is a form of operating profits.

[b] Cross-selling performance refers to the proportion of a salesperson's customers' cross-buying potential that has been tapped and was measured based on a four-item index adapted from "Cross-Selling Performance in Complex Selling Contexts: An Examination of Supervisory- and Compensation-Based Controls" by Schmitz, Christian, You-Cheong Lee and Gary L. Lilien featured in Journal of Marketing. https://doi.org/10.1509/jm.12.0421

Source: Created by the authors based on Homburg, Christian, Sina Böhler, and Sebastian Hohenberg's 'Organizing for Cross-Selling: Do It Right, or Not at All' featured in International Journal of Research in Marketing https://doi.org/10.1016/j.ijresmar.2019.04.002.

Levers and structures

The research that we highlight suggests that if managers were to select the right combination of cross-selling levers, given their organizational structure, they can achieve positive business results (and vice versa). From the lens of cross-selling, companies may be considered to have the following organizational structures:

1. Mechanistic structures: These organizations have a clearly defined hierarchy and lay down guidelines, processes and the expected behaviour of an employee very clearly. A good example of a mechanistic organization would be McDonald's Corporation: "Would you like some fries with that?" is one of the most iconic and powerful lines McDonald's uses to cross-sell and upsell at the points of sale.[9] This practice alone adds over 15-40% to McDonalds revenues. McDonald's has standardized its cross-selling practices by laying down clear operating procedures globally for all points of sale. Such relatively 'rigid' organizational structures don't leave room for a lot of subjectivity.

2. Organic structures: Such organizations have a low degree of formality, specialization and standardization. They operate on the basis of trust in the salesperson's abilities and assume individual ownership to achieve the objectives laid out. Such organic structures arise out of:

a) Managements belief in cross-selling: Supervisors demonstrate their commitment, support, and non-monetary appreciation towards the sales team.

b) Culture that supports: Not just supervisors but peer employees also demonstrate behaviours that represent how much they favour cross-selling.

As an example of such structures in action, Starbucks is known for treating their frontline employees as 'partners' and providing them with stock options and health insurance.[10] As one former Starbucks worker noted, “Nobody at Starbucks ever ordered anyone to do anything. It was always: 'Would you do me a favour?' Or something similar.” Such an organic structure at Starbucks results in a more agreeable service ambience, which in turn drives more repeat customer traffic and more cross-sales, supported by their industry-leading loyalty program.[11]

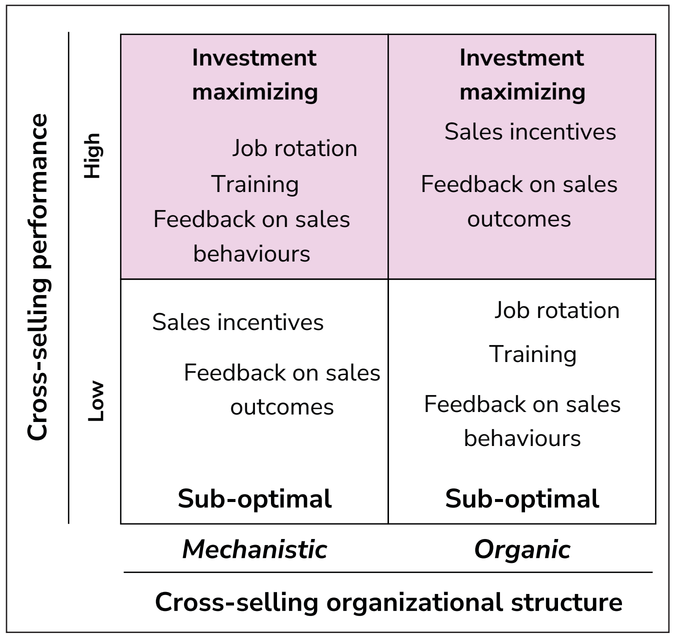
A 2023 survey by HubSpot research of over 1,400 sales professionals in Asia, North America, and Europe Asia found that cross-selling accounts for 21% of their organizations' revenues, on average

Having identified the structure of the organization, the next step would be to match it with the following levers or 'steering instruments' to maximize cross-selling performance.

- Financial levers such as incentives offered to salespeople
- Non-financial levers, which include:
    - Training: employees from different departments on handling different products from the entire portfolio and on cross-selling techniques.
    - Systematic job rotation: by transferring salespersons across different and diverse sales teams to sensitize them and increase knowledge about other products in the firm's portfolio.
    - Feedback: given to salespersons by their supervisors. This can be of two types—related to salesforce behaviours, or related to sales outcomes.

So, what are winning combinations of levers and structures? *Figure 2* provides a visual depiction, which we further develop using examples.

Figure 2: Combining Cross-Selling Levers and Organizational Structures



Source: Created by the authors based on Homburg, Christian, Sina Böhler, and Sebastian Hohenberg's 'Organizing for Cross-Selling: Do It Right, or Not at All' featured in International Journal of Research in Marketing https://doi.org/10.1016/j.ijresmar.2019.04.002; and Yuhyung Shin, Won-Moo Hur, and Tae Won Moon's 'When and How Sales Manager Feedback Contributes to Sales Performance: The Role of Emotional Labor and Cross-Selling' featured in European Journal of Marketing https://doi.org/10.1108/EJM-12-2021-0984.

A look at industry practices revealed that these research findings are already at work in large companies. Three examples from different industries and markets are illustrated below, along with our commentary on their organizational context and the use of cross-selling levers.

- ITC Limited (ITC): A consumer-packaged goods firm in India, ITC conforms well to our definition of a mechanistic organization structure, in combination with 'High' levels of training, job rotation, and incentives.[12] In operational terms, ITC has divided its businesses into three product groups or segments. The salesperson from each segment visits their retailers and can cross-sell other segments. Guidelines for the salesperson are very clearly defined, leading to a mechanistic structure. ITC supports the structure with thorough training, some job rotation and incentives for higher sales, which can be achieved through higher cross-selling. Thus, in *Figure 2*, we would expect ITC to occupy a position in the upper left quadrant, or 'Investment Maximising'. As evidence of ITC's success, it has recently been crowned as the largest company in the consumer packaged food market in India. [13]

- Amazon: Around 35% of e-tailer Amazon's revenues have been reported to come from cross-selling and upselling (encouraging customers to purchase more items or add-ons to increase revenue).[14] While the research articles we spotlight do not extend to e-commerce platforms, we observe some similarities with the research sales levers used by Amazon. The e-tailer encourages cross-selling by offering strong incentives (more clicks on ads lead to more revenue), active support from management, and a culture focused on cross-selling. According to *Figure 2*, this would lead Amazon to occupy the top-right quadrant, again in an 'Investment Maximizing' form.

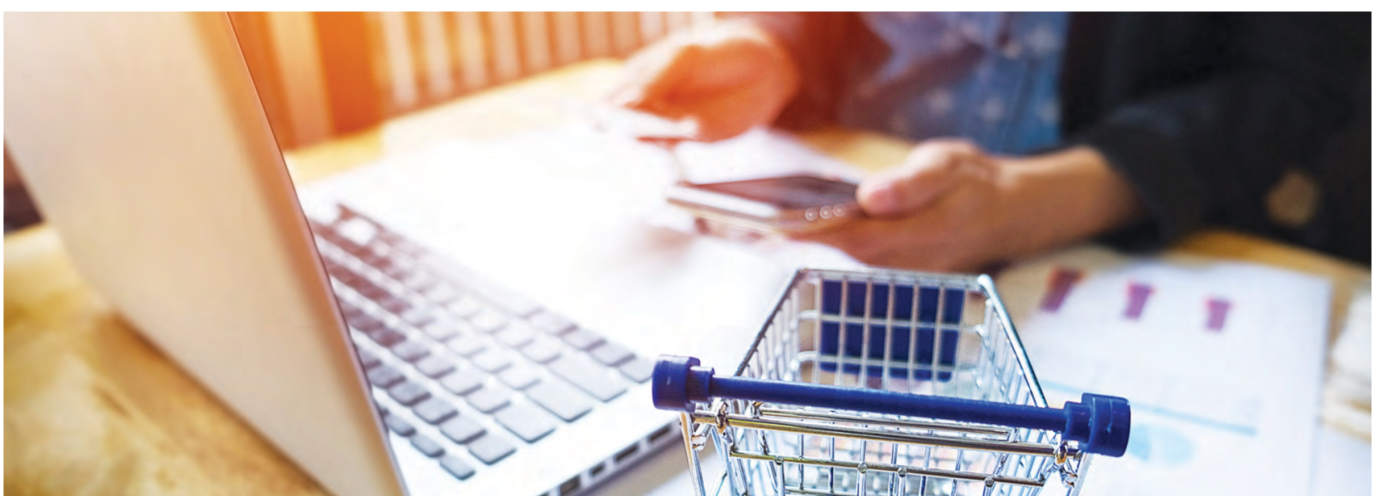
- McDonald's Corporation (McDonald's): While we have outlined McDonald's organizational context and cross-selling instruments before, we also note that a better combination of levers could improve their cross-selling performance. For instance, while their training on standard cross-sales processes is well aligned to their mechanistic structure, they could change their investment in other levers. First, they could increase job rotation within the same organizational level. Second, they could reduce the emphasis on cross-sales incentives, and finally, they could train supervisors to provide more feedback on the efforts made towards cross-selling. Such combinations could help McDonald's improve their position in the upper left quadrant of *Figure 2*.

Role of managerial feedback

As we suggested in the example of McDonald's, companies can optimize their cross-selling performance by providing the appropriate managerial feedback. Here, the research by Shin and team provides a better distinction on the types of feedback, and when to use which type. Using the right type of feedback can improve salesforce motivation, which in turn, can improve salesforce efforts. Their research suggests that sales manager feedback can be divided into two broad categories.

- Output feedback: Here the manager monitors the sales volume or revenue and provides feedback on the extent of sales goals achieved. Such feedback enables salespersons to be aware of the output level they have to achieve and stimulates cross-selling behaviour by increasing a salesperson's accountability for performance. As such feedback entails a high degree of autonomy and flexibility, it is more suited for organic structures.

- Behavioural feedback: Here a manager monitors salesforce's selling processes, work procedures and gives feedback based on these behaviours. Such feedback provides role clarity to the salesforce and helps them determine how to improve their sales behaviour and adapt to customer demands. As this form of feedback relies on a set of prescribed protocols or behaviours, it can be better leveraged by organizations with a mechanistic structure.



Steering instruments to maximize cross-selling performance:

- Financial levers such as incentives offered to salespeople
- Non-financial levers, which include training, systematic job rotation and feedback related to salesforce behaviours or related to sales outcomes

Exercising care with cross-selling

We close by suggesting some caveats to all cross-selling efforts. At an aggregate level, cross-selling performance benefits the company, but at a customer level, one out of every five cross-buying customers is unprofitable.[15] Therefore, it would be crucial for companies to implement cross-selling in their organization carefully, effectively, and efficiently by identifying the suitable segment of customers to cross-sell. Another vital caution relates to ethics and leadership. Wells Fargo's blind emphasis on making the numbers around cross-selling led to their frontline employees behaving fraudulently with customers. Clearly, cross-selling must also be supported by checks and balances, including board-level discussions on ethics and audits.[16]

Beyond the caveats, we end with a clear prescription: Any organization wishing to improve its cross-selling should first characterize the organizational structure for their salesforce and then ask – does it fit with the steering instruments of incentives, training, managerial feedback, and job rotation? Understanding the fit will enable a company to adjust the levers to improve EBITDA. As you implement these recommendations, remember that you cannot skip the 'death valley' entirely, but you can navigate it successfully.

Renuka Kamath *is Professor for Marketing and Associate Dean of Full-time Programmes at SPJIMR. You can reach out to her at* **rkamath@spjimr.org**

Pranav Bharti *is alumnus of SPJIMR's Post Graduate Diploma in Management Batch of 2024*

This article may contain links to third party content, which we do not warrant, endorse, or assume liability for. The authors' views are personal.

If you have some inputs you would like to share, you can also reach out to us at **mpi@spjimr.org**

REFERENCES

[1] Christian Homburg, Sina Böhler, and Sebastian Hohenberg, "Organizing for Cross-Selling: Do It Right, or Not at All," International Journal of Research in Marketing 37, no. 1 (March 1, 2020): 56–73, https://doi.org/10.1016/j.ijresmar.2019.04.002.

[2] Yuhyung Shin, Won-Moo Hur, and Tae Won Moon, "When and How Sales Manager Feedback Contributes to Sales Performance: The Role of Emotional Labor and Cross-Selling," European Journal of Marketing 57, no. 2 (2023): 599–625, https://doi.org/10.1108/EJM-12-2021-0984.

[3] Sophia Bernazzani Barron, "What Is Cross-Selling? Intro, Steps, and Pro Tips [+Data]," May 14, 2024, https://blog.hubspot.com/sales/cross-selling.

[4] Sophia Bernazzani Barron.

[5] Herman Vantrappen and Frederic Wirtz, "Making Silos Work for Your Organization," Harvard Business Review, November 1, 2021, https://hbr.org/2021/11/making-silos-work-for-your-organization.

[6] Salesforce Research, "What Are Customer Expectations, and How Have They Changed?," Industry research, accessed August 20, 2024, https://www.salesforce.com/resources/articles/customer-expectations/.

[7] Pranav Bharati, "Autumn Project Report" (Mumbai, India: S. P. Jain Institute of Mangement & Report, 2023), SPJIMR Library.

[8] John Chartier, "The Six c's of Cross-Selling Success," McKinsey Quarterly, February 3, 2021, https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/the-strategy-and-corporate-finance-blog/the-six-cs-of-cross-selling-success.

[9] Jaap Vergote, "How McDonald's Uses Upsells and Cross-Sells to Grow Revenue," Shopify Upsell & Cross Sell | UpsellPlus (blog), February 3, 2023, https://www.upsellplus.com/blog-post/how-mcdonalds-uses-upsells-and-cross-sells-to-grow-revenue.

[10] Varya Davidson and Paul Leinwand, "How Starbucks's Culture Brings Its Strategy to Life," Harvard Business Review, December 30, 2016, https://hbr.org/2016/12/how-starbuckss-culture-brings-its-strategy-to-life.

[11] Andre Ye, "You're Not Just Buying Coffee at Starbucks, You're Buying Loyalty," The Startup (blog), May 21, 2020, https://medium.com/swlh/youre-not-just-buying-coffee-at-starbucks-you-re-buying-loyalty-5d06a2affe14.

[12] Pranav Bharati, "Autumn Project Report."

[13] Writankar Mukherjee, "ITC Beats Adani, Britannia & Parle to Become Largest FMCG Co in Food Space," The Economic Times, December 8, 2023, https://economictimes.indiatimes.com/industry/cons-products/fmcg/itc-fastest-moving-consumer-goods-company-in-food-space/articleshow/105824152.cms.

[14] Charles, "What Amazon Can Teach You About Cross-Selling," Predictable Profits (blog), May 14, 2014, https://predictableprofits.com/amazon-can-teach-cross-selling/.

[15] https://hbr.org/2012/12/the-dark-side-of-cross-selling

[16] James Heskett, "What Are the Real Lessons of the Wells Fargo Case?," HBS Working Knowledge (blog), November 1, 2017, http://hbswk.hbs.edu/item/what-are-the-real-lessons-of-the-wells-fargo-case.

Article Information:
Date article submitted: Mar 18, 2024
Date article approved: Sep 16, 2024
Date article published: Oct 15, 2024

Images courtesy : www.freepik.com